

MARION, HOWELL, OCEOLA & GENOA SEWER  
& WATER AUTHORITY

47-7-524

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>MARION, HOWELL, OCEOLA &amp; GENOA S&amp;W</b>	County <b>LIVINGSTON</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>1/14/05</b>	Date Accountant Report Submitted to State: <b>1/20/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

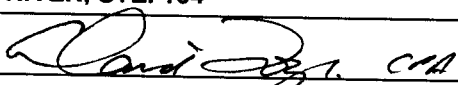
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>PFEFFER, HANNIFORD &amp; PALKA, P.C.</b>			
Street Address <b>225 E. GRAND RIVER, STE. 104</b>		City <b>BRIGHTON</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48116</b>	Date <b>1/20/05</b>

**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**

**SEWER & WATER AUTHORITY BOARD**

Chairman - Gary McCririe  
Vice-Chairman - Robert Harvey  
Treasurer - Robin Hunt  
Secretary - William Bamber  
Member - Dr. William Earl  
Member - James Phelan  
Member - Lance Schuhmacher  
Member - Daniel Lowe

**SEWER & WATER AUTHORITY AUDITORS**

Pfeffer, Hanniford & Palka  
Certified Public Accountants

## TABLE OF CONTENTS

### PAGE NUMBER

INDEPENDENT AUDITORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

6

FINANCIAL STATEMENTS

Statement of Net Assets

11

Statement of Revenues, Expenses and Changes in Net Assets

12

Statement of Cash Flows - Direct Method

14

NOTES TO FINANCIAL STATEMENTS

16

SUPPLEMENTARY INFORMATION

Schedule of Revenues and Expenses – budget to actual – operations only

23

Schedule of Revenues, Expenses and Transfers—  
comparison over past seven years

24

Statement of Cash Flows - Indirect Method

25

**PHP**

**PFEFFER • HANNIFORD • PALKA**  
*Certified Public Accountants*

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January 14, 2005

Marion, Howell, Oceola & Genoa  
Sewer & Water Authority  
2911 Dorr Road  
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Marion, Howell, Oceola & Genoa Sewer & Water Authority as of and for the year ended September 30, 2004. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion, Howell, Oceola & Genoa Sewer & Water Authority, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, the Authority has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, as of September 30, 2004.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion, Howell, Oceola & Genoa Sewer & Water Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly states in all material respects in relation to the basic financial statements as a whole.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants

PFEFFER, HANNIFORD & PALKA  
*Certified Public Accountants*

MANAGEMENT  
DISCUSSION  
AND  
ANALYSIS

Management Discussion and Analysis  
September 30, 2004

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Within this section of the Marion, Howell, Ocala & Genoa Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2004. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

**Overview of the Financial Statements**

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

***Government-wide Financial Statements***

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

***Other information***

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$29,428,050. This is a \$4,349,387 increase over last year's net assets of \$25,078,663.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

**Summary of Net Assets**

	<u>9/30/04</u>	<u>9/30/03</u>
Current and other assets	\$ 1,156,916	\$ 995,376
Restricted assets	1,435,023	517,538
Capital assets, net	<u>27,261,856</u>	<u>23,847,701</u>
Total assets	<u>29,853,795</u>	<u>25,360,615</u>
Accounts payable	92,521	69,397
Due to others (from restricted assets)	<u>333,224</u>	<u>212,555</u>
Total liabilities	<u>425,745</u>	<u>281,952</u>
Net assets:		
Invested in capital assets	27,261,856	23,847,701
Unrestricted	<u>2,166,194</u>	<u>1,230,962</u>
Total net assets	<u>\$ 29,428,050</u>	<u>\$ 25,078,663</u>



### Summary of Changes in Net Assets

	<u>9/30/04</u>	<u>9/30/03</u>
Operating revenues	<u>\$ 1,585,707</u>	<u>\$ 1,391,856</u>
Operating expenses		
System operations	1,716,594	1,521,016
Administrative	<u>200,593</u>	<u>139,559</u>
Total operating expenses	<u>1,917,187</u>	<u>1,660,575</u>
Operating (loss)	(331,480)	(268,719)
Non-operating revenues, net	40,432	35,921
Capital contributions - member townships	<u>4,640,435</u>	<u>5,543,571</u>
Net income	4,349,387	5,310,773
Beginning net assets	<u>25,078,663</u>	<u>19,767,890</u>
Ending net assets	<u><u>\$ 29,428,050</u></u>	<u><u>\$ 25,078,663</u></u>

Revenues from operations increased by 14%, as usage increased due to 396 new users being added to the system. Annual water pumped through the plant increased from 474.1 million gallons for fiscal year ended September 30, 2004, to 517.1 million gallons, a 9.1% increase. Operating expenses increased slightly over the prior year, as various repairs and maintenance were performed on the system. Member capital cash contributions increased by \$550,000 because of the expansion project in progress.

Member capital (non-cash) contributions or additions to the water system by developers and townships decreased by \$1,453,136 mainly because of the large developments in Oceola Township were near completion in the prior year.

As a result, net income decreased from \$5,310,773 for the year ended September 30, 2003 to \$4,349,387 for the year ended September 30, 2004.

#### Capital and Debt Administration

The Authority itself does not have any long-term debt. However, the individual member townships have issued debt over the years to finance the construction of the water treatment plant, various pumps and water lines in the respective townships. The townships are responsible for paying their own debt.

As mentioned above, the member townships and various developers directly spent \$2,365,435 for additions to the system (water lines, pumps, etc.). This amount is recorded as capital contributions - additions to system or income in the statement of revenues and expenses since the infrastructure is added to the Authority's fixed assets and will be depreciated over future years. The Authority also spent \$96,803 as final payments for the \$4 million gallon storage tank installed in the prior year. In addition, the Authority paid out \$1.7 million to start an \$11 million plant expansion project.

#### Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The population in the service area is expected to grow with new users being regularly added to the system.

The Authority also faces a major challenge in the future. Over the past few years, the Authority has suffered significant water loss (i.e. water pumped through plant has been on average 21% more than water billed). The Authority's goal is to find an answer as to why there are such high water losses. According to the engineers, the water loss ratio should be closer to 10%. The Authority has budgeted approximately \$30,000 for September 30, 2005 to research the loss problem.

#### Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 2911 Dorr Road, Brighton, Michigan, 48116.

FINANCIAL  
STATEMENTS

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004

ASSETS

CURRENT ASSETS

Cash	\$ 333,126
Accounts receivable - water operations	745,998
Accounts receivable - Genoa Township	31,916
Prepaid expenses	<u>45,876</u>

Total current assets \$ 1,156,916

RESTRICTED ASSETS

Cash - (collected on behalf of others)	153,019
Cash - expansion	527,244
Cash - equipment replacement	467,175
Cash - Howell Township water tower	107,380
Cash - Escrows	<u>180,205</u>

Total restricted assets 1,435,023

CAPITAL ASSETS

Land	328,982
Water System	29,708,605
Equipment - (office)	<u>96,408</u>
	30,133,995
Less accumulated depreciation	<u>4,650,819</u>

Net property, plant and equipment 25,483,176

CONSTRUCTION IN PROGRESS

1,778,680

Total assets 29,853,795

LIABILITIES

CURRENT LIABILITIES (from unrestricted assets)

Accounts payable - water operations 92,521

CURRENT LIABILITIES (from restricted assets)

Due to others - escrows	180,205
Due to other water and sewer districts	<u>153,019</u>

Total current liabilities (from restricted assets) 333,224

Total current liabilities 425,745

NET ASSETS

NET ASSETS

Investment in capital assets	27,261,856
Unreserved - water	<u>2,166,194</u>

Total net assets \$ 29,428,050

The accompanying notes are an integral part of these financial statements

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

OPERATING REVENUES

Billings - operations	\$ 1,530,160
Meter sales and other revenue	33,702
Grant - wellhead protection	<u>21,845</u>

Total operating revenues	<u>\$ 1,585,707</u>
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OPERATING EXPENSES

Labor - contract	514,614
Labor - non contract	25,112
Lab testing	4,061
Chemicals and supplies	9,538
Repairs and maintenance	244,956
Inspections and testing	5,968
Utilities	130,519
Telephone	15,710
Meters and supplies for meters	1,984
Miss digs	1,128
Depreciation	<u>763,004</u>

Total operating expenses	1,716,594
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ADMINISTRATION EXPENSES

Office expenses	269
Per diem - board members	12,525
Bookkeeping	6,480
Accounting and audit fees	19,485
Insurance	34,031
Vulnerability assessment	15,600
Mapping project	8,031
Wellhead protection and expenses	32,046
Administration - billing preparation	69,501
Consulting and engineering	<u>2,625</u>

Total administration expenses	<u>200,593</u>
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Total expenses	<u>1,917,187</u>
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OPERATING (LOSS)	<u>\$ (331,480)</u>
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The accompanying notes are an integral part of these financial statements

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS- (continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

NON-OPERATING REVENUES

Interest income	\$ 6,007
Rental income	<u>34,425</u>

Total non-operating revenue	<u>\$ 40,432</u>
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CAPITAL CONTRIBUTIONS

Member contributions - cash	2,275,000
Member contributions - additions to system	<u>2,365,435</u>

Total capital contributions	<u>4,640,435</u>
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Net income	4,349,387
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NET ASSETS, OCTOBER 1, 2003	<u>25,078,663</u>
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NET ASSETS, SEPTEMBER 30, 2004	<u>\$ 29,428,050</u>
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MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
STATEMENT OF CASH FLOWS - DIRECT METHOD  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts form customers	\$ 1,441,967
Receipts (net) from developers, others	270,669
Receipts from state - grant	21,845
Payments to vendors	<u>(1,138,238)</u>

Net cash from operating activities \$ 596,243

CASH FLOWS FROM (USED IN) CAPITAL AND RELATED  
FINANCING ACTIVITIES

Member contributions	2,275,000
Repayment of loan to Genoa Township	(150,000)
Acquisition of capital assets	(96,803)
Acquisition of construction in progress	<u>(1,714,921)</u>

Net cash from capital and related financing activities 313,276

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	6,007
Rental income	<u>34,425</u>

Net cash from investing activities 40,432

Increase in cash 949,951

CASH AT OCTOBER 1, 2003 818,198

CASH AT SEPTEMBER 30, 2004 \$ 1,768,149

RECONCILIATION OF OPERATING (LOSS) TO NET CASH  
FROM (USED IN) OPERATING ACTIVITIES

Operating (loss)	\$ (331,480)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities	
Depreciation expenses	763,004
Changes in assets and liabilities	
Receivables, net	(121,895)
Accounts payables, net	23,124
Prepaid expenses	(7,179)
Net receipts from developers, others	<u>270,669</u>

Net cash from operating activities \$ 596,243

The accompanying notes are an integral part of these financial statements

NOTES  
TO  
FINANCIAL  
STATEMENTS



MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Marion, Howell and Oceola Sewer & Water Authority was incorporated on February 28, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. On March 20, 1996 the articles of incorporation were amended to add Genoa Township to the Authority. The four incorporating municipal entities are Marion, Howell, Oceola and Genoa Townships. The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The construction of a water system was completed in December of 1997. Thus, the Marion, Howell, Oceola and Genoa Sewer & Water Authority (MHOG) began operations in January of 1998.

The financing of the water system was done mostly by the sale of contract bonds which are retired through special assessments by the various townships through the Livingston County Department of Public Works. There were several construction funds set-up to administer the disbursements of funds to pay for the construction at the Livingston County Department of Public Works. Disbursements of funds have also been paid out of various funds maintained by the various townships for construction of the system.

The Authority board is composed of two voting representatives from each township. Each representative serves a one year term. The four townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective township.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF  
SIGNIFICANT ACCOUNTING POLICIES - continued

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 40 years for equipment and 5 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM, AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended September 30, 2004.

H. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

Michigan Compiled Laws Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
First National Bank, Howell Insured	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>1,668,149</u>	<u>1,673,312</u>
	<u>\$ 1,768,149</u>	<u>\$ 1,773,312</u>

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll for the applicable township. As of September 30, 2004, approximately \$45,037 of the outstanding \$745,998 accounts receivable went on the tax roll for collection. The Authority will receive the \$45,037 by March of 2005 through the tax collection process. The remaining accounts receivable of \$700,961 (\$745,998 - 45,037) were under 90 days old as of September 30, 2004.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of changes in property, plant and equipment:

	Balance 10-1-03	Additions	(Deletions)	Balance 9-30-04
Land	\$ 328,982	\$	\$	\$ 328,982
Water system	27,246,367	2,462,238		29,708,605
Equipment	96,408			96,408
<b>Total</b>	<b>\$ 27,671,757</b>	<b>\$ 2,462,238</b>	<b>\$</b>	<b>\$ 30,133,995</b>
Construction in progress	\$ 63,759	\$ 1,714,921	\$	\$ 1,778,680

The following is a summary of changes in accumulated depreciation:

Balance October 1, 2003	\$ 3,887,815
Depreciation incurred for the year ended September 30, 2004	763,004
Balance September 30, 2004	<u>\$ 4,650,819</u>

Depreciation related to the water system and equipment is recorded as depreciation expense on the statement of revenues and expenses. Depreciation is recorded on the straight-line basis over the estimated useful life of the asset which is as follows:

Water system - plant and distribution system	40 years
Equipment	5 & 7 years

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

**NOTE 6 - STATEMENT OF CASH FLOWS**

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The indirect method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	Beginning Balance October 1, 2003	Ending Balance September 30, 2004
CURRENT ASSETS		
Cash and cash equivalents	\$ 300,660	\$ 333,126
RESTRICTED ASSETS		
Cash and cash equivalents	<u>517,538</u>	<u>1,435,023</u>
Total cash and cash equivalents	<u>\$ 818,198</u>	<u>\$ 1,768,149</u>

**NOTE 7 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE 8 - SEGMENT INFORMATION**

Selected financial information is as follows:

Operating revenue	\$ 1,585,707
Depreciation	763,004
Total assets	29,853,795
Total net assets	29,428,050
Net income	4,349,387

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

NOTE 9 - IMPLEMENTATION OF GASB STATEMENT NO. 34

The Authority has implemented the standards required by GASB Statement No. 34, for the year ended September 30, 2004. All required statements and disclosures have been included in the financial statements.

SUPPLEMENTARY  
INFORMATION

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES – BUDGET TO ACTUAL – OPERATIONS ONLY  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Actual One Year 9-30-04	Budget One Year 9-30-04	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Billings	\$ 1,530,160	\$ 1,455,000	\$ 75,160
Other revenues	1,786	2,500	(714)
Rental income – Howell Tower	34,425	34,425	
Wellhead Prot. Grant	21,845	21,845	
Meter sales	31,916	23,000	8,916
Interest income	6,007	6,000	7
Total revenues	<u>1,626,139</u>	<u>1,542,770</u>	<u>83,369</u>
<b>EXPENSES – OPERATIONS</b>			
Labor - contract	514,614	514,614	
Labor – non contract	25,112	41,000	15,888
Lab testing	4,061	5,500	1,439
Chemicals and supplies	9,538	15,000	5,462
Repairs and materials – grounds/building	6,964	8,000	1,036
Repairs and materials - other	237,992	240,000	2,008
Inspection and testing	5,968	6,000	32
Utilities - electric	123,322	140,000	16,678
Utilities - gas	7,197	9,000	1,803
Telephone	15,710	17,000	1,290
Meters and supplies for meters	1,984	1,500	(484)
Miss Dig	1,128	1,200	72
Total operating expenses	<u>953,590</u>	<u>998,814</u>	<u>45,224</u>
<b>EXPENSES – ADMINISTRATION</b>			
Office expenses	269	1,500	1,231
Per diem – board members	12,525	14,000	1,475
Bookkeeping	6,480	6,480	
Accounting and audit fees	19,485	19,500	15
Insurance	34,031	36,000	1,969
Vulnerability assessment	15,600	15,600	
Mapping project	8,031	8,031	
Wellhead Prot. expenses	32,046	32,046	
Administration – billing preparation	69,501	70,000	499
Consulting and engineering	2,625	3,000	375
Total administration expenses	<u>200,593</u>	<u>206,157</u>	<u>5,564</u>
TRANSFERS TO RESERVES FROM O & M	145,100	145,000	(100)
TRANSFERS TO RESERVES – HOWELL TOWER RENT	34,425	34,425	
Total transfers to reserves	<u>179,525</u>	<u>179,425</u>	<u>(100)</u>
<b>TOTAL EXPENSES AND TRANSFERS</b>	<u>1,333,708</u>	<u>1,384,396</u>	<u>50,688</u>
<b>NET SURPLUS (LOSS) BEFORE PAYBACK</b>	<u>292,431</u>	<u>158,374</u>	<u>134,057</u>
<b>PAYBACK TO GENOA TOWNSHIP</b>	<u>(150,000)</u>	<u>(150,000)</u>	
Net revenues over expenses and transfers	<u>\$ 142,431</u>	<u>\$ 8,374</u>	<u>\$ 134,057</u>

This schedule is prepared to present revenues and expenses related to current operations only (excludes member contributions and depreciation) and includes loan payback and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information.



**MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY**  
**SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS -**  
**COMPARISON OVER PAST SEVEN YEARS**

	<u>9/30/2004</u>	<u>9/30/2003</u>	<u>9/30/2002</u>	<u>9/30/2001</u>	<u>9/30/2000</u>
<b>REVENUES</b>					
Billings	\$ 1,530,160	\$ 1,364,164	\$ 1,309,370	\$ 985,744	\$ 714,055
Interest income	6,007	7,571	6,758	10,515	4,847
Rental income - Howell Tower	34,425	28,350			
Wellhead protection grant	21,845		9,585	5,686	6,945
Meter sales	31,916	24,398	21,155	46,702	62,196
Other income	<u>1,786</u>	<u>3,294</u>	<u>2,847</u>	<u>11,567</u>	<u>5,104</u>
Total revenues	<u>1,626,139</u>	<u>1,427,777</u>	<u>1,349,715</u>	<u>1,060,214</u>	<u>793,147</u>
<b>EXPENSES - OPERATIONS</b>					
Labor - contract	514,614	457,495	493,017	339,796	201,798
Labor - non-contract	25,112	67,385	126,248	137,135	69,236
Lime sludge removal		31,825	25,000		
Lab testing	4,061	448	1,967	933	1,150
Chemicals and supplies	9,538	16,400	58,729	59,131	32,081
R & M - grounds and building	6,964	6,955	12,323	11,852	17,638
R & M - other	237,992	183,885	139,306	63,352	62,817
Inspections and testing	5,968	1,859		1,769	624
Utilities - electric	123,322	112,977	109,620	98,615	74,420
Utilities - gas	7,197	6,075	4,417	5,160	5,088
Telephone	15,710	15,723	11,727	8,294	8,390
Meter installs - labor			6,020	5,031	5,498
Meter and supplies for meters	1,984	3,567	1,265	2,636	16,120
Miss Dig	1,128	862	862	110	
Other					<u>347</u>
Total expenses - operations	<u>953,590</u>	<u>905,456</u>	<u>990,501</u>	<u>733,814</u>	<u>495,207</u>
<b>EXPENSES - ADMINISTRATION</b>					
Office expenses	269	1,152	1,323	899	441
Per Diem - board members	12,525	12,850	9,475	10,425	8,025
Bookkeeping	6,480	6,300			
Accounting/audit fees	19,485	18,500	16,170	17,175	14,845
Insurance	34,031	30,041	24,889		
Vulnerability assessment	15,600				
Legal					2,831
Mapping project	8,031	2,768			
Wellhead protection expenses	32,046	9,073	11,394	5,686	6,445
Meter reading - billing preparation	69,501	58,300	49,152	40,936	34,142
Sewer assessment					5,717
Consulting and engineering	<u>2,625</u>	<u>575</u>	<u>987</u>		
Total expenses - administration	<u>200,593</u>	<u>139,559</u>	<u>113,390</u>	<u>75,121</u>	<u>72,446</u>
<b>TRANSFERS TO RESERVES</b>	<u>179,525</u>	<u>148,350</u>	<u>58,281</u>	<u>35,500</u>	<u>35,500</u>
Total expenses and transfers to reserves	<u>1,333,708</u>	<u>1,193,365</u>	<u>1,162,172</u>	<u>844,435</u>	<u>603,153</u>
Net revenues, expenses, transfers	<u>\$ 292,431</u>	<u>\$ 234,412</u>	<u>\$ 187,543</u>	<u>\$ 215,779</u>	<u>\$ 189,994</u>

This schedule is prepared to present revenues and expenses related to current operations only (excludes member contributions and depreciation) and includes transfer to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information.

<u>9/30/1999</u>	<u>9/30/1998</u>
\$ 559,837	\$ 351,479
2,821	1,529
830	
226,016	115,875
<u>10,838</u>	<u>23,836</u>
<u>800,342</u>	<u>492,719</u>
184,253	98,235
67,001	45,573
1,663	4,852
38,020	35,043
7,267	2,223
24,192	6,146
590	620
60,193	46,033
7,216	7,904
9,373	7,385
5,492	6,455
206,373	108,759
<u>611,633</u>	<u>369,228</u>
561	1,296
10,125	5,525
14,735	5,850
26,354	25,665
4,273	
<u>56,048</u>	<u>38,336</u>
<u>35,500</u>	<u>26,625</u>
<u>703,181</u>	<u>434,189</u>
<u>\$ 97,161</u>	<u>\$ 58,530</u>

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY  
STATEMENT OF CASH FLOWS - INDIRECT METHOD  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Operating (loss)		\$ (331,480)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities		
Depreciation expense	\$ 763,004	
Changes in assets and liabilities		
(Increase) in accounts receivable - operations	(112,527)	
(Increase) in accounts receivable - Genoa Township	(9,368)	
(Increase) in prepaid expenses	(7,179)	
Increase in accounts payable	23,124	
Increase in due to others	<u>270,669</u>	
Total adjustments		<u>927,723</u>
Net cash from operating activities		596,243
<b>CASH FLOWS FROM (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Member contributions	2,275,000	
Repayment of loan to Genoa Township	(150,000)	
Acquisition of capital assets	(96,803)	
Acquisition of construction in progress	<u>(1,714,921)</u>	
Net cash from capital and related financing activities		313,276
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	6,007	
Rental income	<u>34,425</u>	
Net cash from investing activities		<u>40,432</u>
Increase in cash		949,951
CASH AT OCTOBER 1, 2003		<u>818,198</u>
CASH AT SEPTEMBER 30, 2004		<u>\$ 1,768,149</u>